GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4036
ANSWERED ON:09.12.2016
Masala Bonds
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Will the Minister of FINANCE be pleased to state:

(a) whether the banks proposes to issue masala bonds which helped lenders with funds for infrastructure and affordable housing;

(b) if so, the details thereof;

(c) whether the Reserve Bank of India proposed to limit exposure of a bank to a business group to 25% of its capital; and

(d) if so, the details thereof?

Answer

The Minister of State in the Ministry of Finance

(a) & (b): Reserve Bank of India (RBI) has informed that as part of the package of measures announced on August 25, 2016 for development of fixed income and currency markets, in connection with developing the market for rupee denominated bonds overseas, it has been decided, to permit banks to issue Perpetual Debt Instruments (PDI) qualifying for inclusion as Additional Tier 1 capital and debt capital instruments qualifying for inclusion as Tier 2 capital, by way of rupee denominated bonds overseas. It was also decided to allow banks to issue rupee denominated bonds overseas under the extant framework of incentivizing issuance of long term bonds by banks for financing infrastructure and affordable housing.
(c) & (d): In order to address concentration risk and to align with internationally accepted practices, RBI has issued a circular dated December 1, 2016 on "Large Exposure Framework". The salient features of the Large Exposures (LE) Framework include:
â€¢ The sum of all exposure values of a bank to a counterparty or a group of connected counterparties is defined as a large exposure, if it is equal to or more than 10 percent of the bank's eligible capital base.
â€¢ The LE limit in respect of each counterparty and group of connected counterparties, under normal circumstances, will be capped at 20 percent and 25 percent respectively of the eligible capital base.
â€¢ The eligible capital base is defined as the Tier 1 capital of the bank as against 'Capital Funds' at present.
â€¢ A group of connected counterparties is identified on the basis of 'control' criteria. Though 'economic dependence' criteria had been included in the draft guidelines, the same has been excluded in the final circular based on the feedback and our assessment that 'economic dependence' criteria may be very difficult to implement in the Indian context.
â€¢ Banks' exposure to Government, Reserve Bank, clearing related exposures to QCCP are excluded, at present. While the draft provided exemptions for interbank bank exposures from LE Framework, based on the Basel's latest updates, we have included the interbank exposures in the LE Framework i.e., interbank exposures will be subject to LE limits and reporting.
â€¢ The LE framework will be fully applicable with effect from April 1, 2019.

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